



Legislative Audit Division

State of Montana

Report to the Legislature

October 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Board of Public Education

This report contains an unqualified opinion on the financial schedules and no recommendations to the board.

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

06-22B

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Joe Balyeat, Vice Chair
Senator John Brueggeman
Senator Jim Elliott
Senator Dan Harrington
Senator Lynda Moss
Senator Corey Stapleton

Representative Dee Brown
Representative Hal Jacobson
Representative Christine Kaufmann
Representative Scott Mendenhall
Representative John Musgrove, Chair
Representative Janna Taylor

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

October 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education (board) for the two fiscal years ended June 30, 2006. The objectives of our audit included determining whether the board's financial schedules presented fairly its results of operations and changes in fund balances for the two fiscal years ended June 30, 2006, and 2005, and assessing the board's compliance with applicable laws and regulations.

The board was created by Article X, section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate. A student, selected annually by the Montana Association of Student Councils, also sits as a non-voting member of the board.

There is a seven-member Certification Standards and Practices Advisory Council, authorized in section 2-15-1522, MCA, which makes recommendations to the board.

It is the board's statutory responsibility to establish policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards, and various other education related activities. Included in this report is a list of the current members of the Board of Public Education.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We issued an unqualified opinion, which means the reader can rely on the presented information. The board's response to this report is included on page B-1.

This report does not contain any recommendations to the board. The prior financial-compliance audit report, issued for fiscal years 2002-03 and 2003-04, did not contain any recommendations.

We thank the Executive Secretary and the staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Scott A. Seacat
Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board of Public Education

Brian Schweitzer, Governor*

Linda McCullough, Superintendent of Public Instruction*

Sheila M. Stearns, Commissioner of Higher Education*

		<u>Term Expires</u>
Dr. Kirk Miller, Chairperson	Havre	2009
Diane Fladmo, Vice Chairperson	Glendive	2012
Storrs Bishop	Ennis	2010
Cal Gilbert	Great Falls	2011
John Fuller	Whitefish	2008
Patty Myers	Great Falls	2007
Angela McLean	Butte	2013
Jenny Tiskus, Student Representative	Polson	2007

*ex officio members

Steve Meloy, Executive Secretary

Certification Standards and Practices Advisory Council

		<u>Term Expires</u>
Dr. Douglas Reisig, Chairperson	Missoula	2007
Melodee Smith-Burres, Vice Chairperson	Missoula	2009
Kim Warrick	Bozeman	2008
Judie Woodhouse	Billings	2009
Tonia Bloom	Hamilton	2007
Charla Bunker	Great Falls	2008
Mary Susan Fishbaugh	Billings	2008

Peter Donovan, Administrative Officer

For additional information regarding the board contact:

Steve Meloy, Executive Secretary
Board of Public Education
PO Box 200601
Helena MT 59620-0601
Phone: (406) 444-6576
e-mail: smeloy@bpe.montana.edu

Members of the audit staff involved in this audit were David Brammer, John Fine, Jim Manning and Melissa Soldano.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures and Transfers-Out of the Board of Public Education for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the board's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the board's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Public Education for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 2, 2006

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2005	\$ <u>2,910</u>	\$ <u>166,980</u>
ADDITIONS		
NonBudgeted Revenues & Transfers-In	399	
Direct Entries to Fund Balance	<u>170,911</u>	<u>165,616</u>
Total Additions	<u>171,310</u>	<u>165,616</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	167,682	180,815
NonBudgeted Expenditures & Transfers-Out	<u>(60)</u>	<u>1,412</u>
Total Reductions	<u>167,622</u>	<u>182,227</u>
FUND BALANCE: June 30, 2006	\$ <u><u>6,598</u></u>	\$ <u><u>150,369</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
FUND BALANCE: July 1, 2004	\$ <u>2,916</u>	\$ <u>168,199</u>	\$ <u>0</u>
ADDITIONS			
NonBudgeted Revenues & Transfers-In	260		
Prior Year Revenues & Transfers-In Adjustments	(481)		
Direct Entries to Fund Balance	<u>148,899</u>	<u>166,432</u>	<u>2,211</u>
Total Additions	<u>148,678</u>	<u>166,432</u>	<u>2,211</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	148,741	165,145	2,211
NonBudgeted Expenditures & Transfers-Out	<u>(57)</u>	<u>2,506</u>	
Total Reductions	<u>148,684</u>	<u>167,651</u>	<u>2,211</u>
FUND BALANCE: June 30, 2005	\$ <u>2,910</u>	\$ <u>166,980</u>	\$ <u>0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS	
Taxes	\$ <u>399</u>
Total Revenues & Transfers-In	<u>399</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>399</u>
Actual Budgeted Revenues & Transfers-In	<u>0</u>
Estimated Revenues & Transfers-In	
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS	
Taxes	\$ <u> </u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS	
Taxes	\$ <u>(221)</u>
Total Revenues & Transfers-In	(221)
Less: Nonbudgeted Revenues & Transfers-In	260
Prior Year Revenues & Transfers-In Adjustments	<u>(481)</u>
Actual Budgeted Revenues & Transfers-In	0
Estimated Revenues & Transfers-In	
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS	
Taxes	\$ <u> </u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS	
Taxes	\$ <u>(221)</u>
Total Revenues & Transfers-In	(221)
Less: Nonbudgeted Revenues & Transfers-In	260
Prior Year Revenues & Transfers-In Adjustments	<u>(481)</u>
Actual Budgeted Revenues & Transfers-In	0
Estimated Revenues & Transfers-In	
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS	
Taxes	\$ <u> </u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Administration</u>	<u>Advisory Council</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries	\$ 79,736	\$ 106,419	\$ 186,155
Other Compensation	1,111	23	1,134
Employee Benefits	20,496	34,243	54,739
Total	<u>101,343</u>	<u>140,685</u>	<u>242,028</u>
Operating Expenses			
Other Services	6,047	14,616	20,663
Supplies & Materials	5,445	3,818	9,263
Communications	2,471	2,159	4,630
Travel	26,144	12,984	39,128
Rent	5,045	4,670	9,715
Repair & Maintenance	179	347	526
Other Expenses	20,948	2,948	23,896
Total	<u>66,279</u>	<u>41,542</u>	<u>107,821</u>
Total Expenditures & Transfers-Out	<u>\$ 167,622</u>	<u>\$ 182,227</u>	<u>\$ 349,849</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 167,622		\$ 167,622
State Special Revenue Fund		\$ 182,227	182,227
Total Expenditures & Transfers-Out	<u>167,622</u>	<u>182,227</u>	<u>349,849</u>
Less: Nonbudgeted Expenditures & Transfers-Out	<u>(60)</u>	<u>1,412</u>	<u>1,352</u>
Actual Budgeted Expenditures & Transfers-Out	167,682	180,815	348,497
Budget Authority	181,656	191,501	373,157
Unspent Budget Authority	<u>\$ 13,974</u>	<u>\$ 10,686</u>	<u>\$ 24,660</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 5,586		\$ 5,586
State Special Revenue Fund	8,388	\$ 10,686	19,074
Unspent Budget Authority	<u>\$ 13,974</u>	<u>\$ 10,686</u>	<u>\$ 24,660</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Administration</u>	<u>Advisory Council</u>	<u>Total</u>
Personal Services			
Salaries	\$ 65,752	\$ 96,904	\$ 162,656
Other Compensation	1,100		1,100
Employee Benefits	<u>16,456</u>	<u>31,322</u>	<u>47,778</u>
Total	<u>83,308</u>	<u>128,226</u>	<u>211,534</u>
Operating Expenses			
Other Services	11,621	9,868	21,489
Supplies & Materials	8,232	2,765	10,997
Communications	2,901	2,625	5,526
Travel	20,984	11,674	32,658
Rent	4,515	4,515	9,030
Repair & Maintenance	689	1,339	2,028
Other Expenses	<u>20,340</u>	<u>4,944</u>	<u>25,284</u>
Total	<u>69,282</u>	<u>37,730</u>	<u>107,012</u>
Total Expenditures & Transfers-Out	<u>\$ 152,590</u>	<u>\$ 165,956</u>	<u>\$ 318,546</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 148,684		\$ 148,684
State Special Revenue Fund	1,695	\$ 165,956	167,651
Federal Special Revenue Fund	<u>2,211</u>		<u>2,211</u>
Total Expenditures & Transfers-Out	152,590	165,956	318,546
Less: Nonbudgeted Expenditures & Transfers-Out	<u>1,638</u>	<u>811</u>	<u>2,449</u>
Actual Budgeted Expenditures & Transfers-Out	150,952	165,145	316,097
Budget Authority	<u>186,925</u>	<u>182,785</u>	<u>369,710</u>
Unspent Budget Authority	<u>\$ 35,973</u>	<u>\$ 17,640</u>	<u>\$ 53,613</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 20,958		\$ 20,958
State Special Revenue Fund	<u>15,015</u>	<u>\$ 17,640</u>	<u>32,655</u>
Unspent Budget Authority	<u>\$ 35,973</u>	<u>\$ 17,640</u>	<u>\$ 53,613</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Board of Public Education

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Accounting

The Board of Public Education (board) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the board records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the board incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy also requires the board to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the board receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Board accounts are organized in funds according to state law applicable at the time transactions were recorded. The board uses the following funds:

Notes to the Financial Schedules

Governmental Fund Category

General Fund – to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund – to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Board State Special Revenue Funds include the Certification Standards and Practices Advisory Council account and the Research Fund account, both of which are funded by teacher certification fees. State Special Revenue Funds also include the Montana Commission on Teaching account, which is privately funded through the National Commission of Teachers.

Federal Special Revenue Fund – to account for money received from federal sources used for the operation of state government. The Federal Special Revenue Funds are from Jobs Growth and Tax Relief Reconciliation Act funds for fiscal year 2004-05 only.

2. General Fund Balance

Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. The board's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the two fiscal years ended June 30, 2005, and June 30, 2006. The balances reflect activity at the board and not the fund balance of the statewide General Fund.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue and Federal Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.



Board of Public Education

PO Box 200601
Helena, Montana 59620-0601
(406) 444-6576
mtbpe@bpe.montana.edu
www.bpe.mt.gov

September 19, 2006

BOARD MEMBERS

APPOINTED MEMBERS: Scott A. Seacat, Legislative Auditor
Legislative Audit Division

Dr. Kirk Miller, Ed.D. - Chair
Havre

Diane Fladmo - Vice Chair
Missoula

Storrs Bishop
Ennis

John Fuller
Whitefish

Angela McLean
Anaconda

Patty Myers
Great Falls

Cal Gilbert
Great Falls

Jenny Tiskus, Student Rep.
Polson

EX OFFICIO MEMBERS:

Sheila Stearns, Ed. D.
Commissioner of
Higher Education

Linda McCulloch,
Superintendent of
Public Instruction

Brian Schweitzer, Governor

EXECUTIVE SECRETARY:

Steve Meloy

Room 160
State Capitol
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

I have been afforded the opportunity to respond to the recent audit conducted by Jim Manning and staff members of the Legislative Audit Division. The audit covered the financial and programmatic operations of the Board of Public Education for two fiscal years ending June 30, 2006.

On behalf of the Board of Public Education and its staff, please allow me to recognize and express our gratitude for the courteous and professional manner with which this audit was conducted. The board staff looks forward to this agency interaction as a way to ensure that our activities are not only aligned with state procedural and financial requirements but that we are operating in a manner consistent with our statutory and constitutional obligations.

Your staff, led by Jim Manning, entered our work world in a friendly, very helpful and unintimidating fashion. Though they dealt in both areas of specificity and general application of law we felt that all appropriate areas were examined in a user friendly and thorough manner.

The Board of Public Education is one of the smallest agencies in government. Because of limited staff it is sometimes difficult to respond to the many types of technical demands made on all agencies. Where larger agencies have separate staff dealing with such areas as financial compliance, personnel, budgetary, Information Technology, etc. we cover all areas, in most cases, with one or two FTE. We appreciate your consideration of this reality as you conduct your audit.

Again, thank you for your attention and favorable findings and on behalf of our staff, we look forward to the next audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Meloy".

Steve Meloy
Executive Secretary, Board of Public Education

Cc: Jim Manning

RECEIVED

SEP 19 2006

LEGISLATIVE AUDIT DIV.